Brazil-China Economic Relations: Trade Pattern and China Investment Profile in Brazil

Maria C. Cacciamali, Alexandre de F. Barbosa, Ângela C. Tepassê, Marina N. Biancalana, Marcos Fávaro Martins

Abstract

Brazil and China have presented a pattern of trade characterized by the exchange of Brazilian primary products for Chinese manufactured products. This economic relationship becomes vulnerable the Brazilian long-term growth due to price fluctuations, decline of demand and of income effects, typical behavior of commodities in the international market. In order to minimize the negative effects, the authors of this article advocate increasing the added value of Brazilian exports, in process industries, for instance, and a largest Chinese direct investment in Brazilian infrastructure and industrial components. This will increase productivity in the Brazilian economy that along with the expansion of the domestic market and lower income inequality will increase the sustainability of the Brazilian economic progress.

Keywords: Brazilian-Chinese trade pattern; Chinese investment in Brazil; Brazilian-Chinese economic relations.

Resumo

O Brasil e China têm apresentado um padrão de comércio caracterizada pela troca de produtos primários brasileiros por produtos manufaturados chineses. Esta relação econômica torna-se vulnerável ao crescimento brasileiro de longo prazo devido a flutuações de preços, o declínio da demanda e dos efeitos renda, comportamento típico de commodities no mercado internacional. A fim de minimizar os efeitos negativos, os autores deste artigo defendem o aumento do valor agregado das exportações brasileiras, em indústrias de processo, por exemplo, e um maior investimento direto chinês em infra-estrutura brasileira e componentes industriais. Isto irá aumentar a produtividade da economia brasileira, que, juntamente com a expansão do mercado interno e menor desigualdade de renda vai aumentar a sustentabilidade do progresso econômico brasileiro.

Palavras-Chave: Padrão de Comércio Sino-Brasileiro, Investimentos Chinês no Brasil, Relações Econômicas Sino-Brasileiras.
Introduction

Three sections structured this article. The first analyzes the main debate points that China-Brazil trade relations expansion draws in Brazil. The second deals with the main features of economic relations between Brazil and China, through an analysis of the trade pattern between both countries, put in practice since the beginning of the 2000s. In addition, the third section presents the profile of Chinese foreign investment in Brazil, which has expanded in a significant way since the 2010s. In the concluding remarks, at last, we can find pointed out some of the dilemmas posed for the Brazilian economy within the context of Chinese economic and political rise, which leads to a reorganization of the capitalist global economy and a new international division of labor.

1. Does the Chinese Economic Expansion bring about negative consequences to the Brazilian Economy?

There is a growing literature on the effects, both for Latin America, as specifically for Brazil, trade relations with China. Blazquez-Lidoy, Rodriguez and Santiso (2006) warned about the risk of the rapid increase in Chinese demand intensify specialization in Latin American countries in commodities as in the price volatility of these products could generate oscillations in the growth rate (BLÁZQUEZ-LIDOY, RODRIGUEZ & SANTISO 2006: 38).

Machado and Ferraz (2006) found that Brazilian exports of basic and semi-processed products to China increased its share of total exports throughout the country, while manufactured goods has been decreasing. Another feature of this trade relationship is that the exported products are concentrated in a few industries or usually at the beginning of the chain, with little value addition. The main ones stem from the agricultural and mineral-extraction industry. For these authors, the Brazilian export earnings to China do not seem to reflect a diversification strategy (MACHADO & FERRAZ, 2006).

Is the Chinese competition a threat to Brazilian exports?

Hiratuka and Sarti (2007) analyzed the competition between Brazil and China in manufactured products at Mercosur, LAIA and NAFTA markets, in order to assess at what extent the growth
of Chinese exports would represent a threat to Brazilian exports. The authors found a patterns convergence of both countries exports among the analyzed markets. Indicators of market share showed a displacement of the Brazilian exports to China in these three markets.

According to Jenkins, Peters and Moreira (2007), there are winners and losers in this relationship, both in terms of countries and in terms of sectors, both in trade and investment flows. In this field, the Federation of Industries of São Paulo (FIESP) released in 2010, an analysis of the Brazil and China competition in domestic and foreign markets (European Union, USA and Argentina). The methodology used was the *Profit and Loss of Competitiveness* (G&P)\(^7\), the periods used in the study are included in the biennium between 2004 and 2009. According to this study, at these markets, China displaced Brazil at a total of US$ 12.6 billion in net losses during the analyzed period (FIESP, 2010).

With the same methodology used by FIESP (2010), Barbosa & Jenkins (2011) calculated the displacement of the Brazilian market to China in four markets: Argentina, Chile, Mexico and Venezuela. The result of this research was that between 2004 and 2009, China displacement effect generated a reduction of Brazilian exports of 6.8% in Argentina, 14.4% in the Chilean market, 6.6% in Mexico and 8.6% in Venezuela. Using trade intensity indices, Cunha, Lelis and Lima (2012) did the same analysis of competition among countries in Latin America for the period 1994-2008 and concluded that Chinese exports of manufactures are moving Brazil from the Latin American market. Also, with the same methodology used by FIESP, Valls Pereira (2012) concluded that "the loss of Brazilian products coincided with China's presence in South America it grew in the period 2005/06-2008, then decreased during 2008/2010, and returned to increase in the year 2011 "(Valls Pereira, 2012) and that the biggest losses are in the Argentine market.

**Brazilian economy deindustrialization?**

Regarding the effects of competition in the Brazilian industry, according to Castro (2008), the more complex the industrial park, the largest Chinese competitive pressure on the production system. Since China could set a broad and competitive industrial system in the various links in the chain, countries that have adopted a model of intensive industrialization, such as Brazil and Mexico, tend to be most affected. Then, the debate that arises is: Is this great Chinese demand for commodities and a flood of Chinese manufactured products on the market causing regressive specialization and / or de-industrialization of the Brazilian economy?

According to Nassif (2008), the so-called "Dutch disease" is a "process triggered by the discovery of natural resources (as in the classic case of the Netherlands in the 1970s) or even by the development and export boom in the service sector" (NASSIF, 2008: 73). The consequence of this phenomenon may be the deindustrialization of the economy, since the trade of other goods sector is favored at the expense of industrial goods. But, according to IEDI (2005: 1), the deindustrialization is not always a negative connotation, it can:

---

“Be taken as the decline of industrial production or employment in absolute terms or as a share of national product and employment. It is, most of the times, a normal consequence of a successful process of economic development and is generally associated with improvements in the standard of living of the population. In "normal" pattern at first drops the participation of agriculture in gross domestic product (GDP) and increases the expression of the industry. In the second, it is the services sector that gains space while industry loses it” (IEDI 2005: 1).

However, this phenomenon, in Latin America case, has occurred by the adoption of economic policies during the 1990s, which would have led to a relative early loss and the share of industry in GDP and the "return to a pattern of international specialization based on intensive products in natural resources" (NASSIF, 2008: 73). According to this interpretation, since 2004, this deindustrialization has been marked by some factors: very low real rating changes and a large increase in commodities prices that Brazil exports (NASSIF, 2008).

According to IEDI (2005: 2), the Brazilian industry has kept a significant diversification and, “despite having lost decisive segments and links in the chains for contemporary industrialization, it preserved cutting-edge technology sectors and the ability to expand their productivity and export capacity." That would certainly mean that industry preserves essential features to rebuild and reintegrate the trends in countries with higher industrial dynamism. That is why IEDI (2005) qualifies the Brazilian deindustrialization as "relative". The main argument that deindustrialization was occurring stems from the fact that the share of manufacturing has been losing ground in the Brazilian economy. Industrial production gained new momentum from 2004 on, as well as the value added, the employment and productivity. Between 2004 and 2007, industrial production grew at a rate of 5.9 % per year although it had receded again since 2011.

Kupfer (2012) introduces the evolution of relative prices issue and the terms of exchange between goods and services and, among these, commodities versus manufactures. According to him:

“It is not for nothing the participation of industry in the Brazilian GDP follows trajectories so discrepant when calculated in current or constant values. According to data from Ipeadata available for the past 60 years, unadjusted for the several methodological changes introduced in the national statistical system in the period, it was found, at current values, a decrease from a maximum of about 35% in 1985 to about 15% in 2009, with the largest decrease portion occurring in the 1990s. When it comes to constant values, there was a decrease of a maximum of about 21% in 1977 to about 16% in 2009 and the most decrease part occurred in the 1980s”. (KUPFER, 2012: 1).

A new pattern of interaction between the manufacturing industry and macroeconomic dynamics are under construction in Brazil and is able to combine economic growth with industrial expansion under new shapes. We consider that it will be a distinct pattern than in
the previous period - 1930-1980- when industry dynamics dictated the path of the whole economy, or during the 1990s when the industry was modernizing, restructuring processes and outsourcing inputs and labour force. This emergency is however far from being consolidated, the alternative “depends on the adaptation of the country to the effects in chain enabled by the Chinese emergency, which will require the domestic reconfiguration of intersectoral relationships. Seeing that, the Brazilian public policy must show, and increasingly urgent, greater coherence between macroeconomic and microeconomic, industrial and technological policies”. (BARBOSA; JENKINS, 2011)

At last, the debate over whether deindustrialization or regressive specialization is occurring in Brazil remains unsettled and has generated great discussions. China’s role in this process is a matter of debate not only in Brazil but also in a great portion worldwide, including the developed (CARROUÉ, 2012). In Brazil, for instance, the Brazil-China Business Council is a counterbalance to groups that oppose the growing presence of Chinese manufactured products in Brazilian territory and seeks the deepening of economic cooperation between the two countries. Anyhow, Brazil should strengthen sectors that present competitive advantages, investing in technological innovations and strengthen the manufacturing production structure. (CASSIOLATO; LASTRES; 2011).

2. Trade relations between Brazil and China from the 2000s on. Brazil China Bilateral Trade.

The graphics presented below seek to portray how trade relations between Brazil and the world, especially since 2000; have increasingly been shaped by the pattern of bilateral trade maintained with China. We seek to highlight how China is transforming not only as a prominent buyer of commodities, but also in relevant supplier of industrial goods for the Brazilian economy, which tends to bring structural changes to the pattern of insertion into the country.

Brazil has a surplus in its trade balance since 2000, but from 2007 on - due to the growth acceleration along with valuation of the real - global imports increased more than exports and the balance came to be decreasing reaching deficit in 2013 (Figure1 ). This decrease in the balance is a result of increased imports of the manufacturing industry\(^8\) of the country, a sector in which the country was in deficit since 2008 (Figure 2).

\(^8\) Manufacturing is analyzed through Standard Industrial Classification of All Economic Activities, Rev.3 (ISIC Rev3) divisions from 15 to 37.
The main contributions to the deficit of the Brazilian manufacturing industry are imports from China. Although Brazil has surplus with this country on the trade balance because of exports (Figure 3), especially soybeans, iron ore and oil, the trade deficit in manufactured products has been expanding in a significant way.
The trade deficit in manufacturing rose, especially after the crisis, bouncing from US$ 6 billion in 2008 to US$ 59 billion in 2013, representing China half of this total, with a value of US$ 29 billion (Figures 2 and 4).

In the manufacturing products case, China supplied 17.9% of Brazil imports in 2013, and accounted for 5.1% of Brazilian exports of these goods in the same year (Figure 5), although in this last case, the percentage is somewhat overestimated, because it includes semi-manufactured products, the so-called industrial commodities (Figure 5).

Figure 3 – Brazilian-China Trade Balance (US$ millions)
Source: Comtrade. Own elaboration.

Figure 4– Brazilian-China Manufacturing Trade Balance (US$ Millions)
Source: Comtrade. Own elaboration.
Figure 5 – China’s share in Brazilian in manufacturing imports and exports (%)

Source: Comtrade. Own elaboration.

In Figure number 6, we can see that the durable and nondurable goods are not the main reason for the increase of the Brazilian manufacturing deficit with China. In 2011, the deficit in capital assets amounted to US$ 6.5 billion and intermediate goods reached US$ 13.7 billion, representing both, 80% of the global deficit of the Brazilian manufacturing industry with China.

Figure 6 - Brazilian-China Manufacturing Trade Balance by sectors (US$ millions)

Source: Aliceweb/Mdic. Own elaboration.
Then, the next question to ask is: what are the sectors with greater trade deficit with China? It is possible to observe, first of all, a strong increase in the deficit between 2004 and 2010 for all sectors, right when the Brazilian manufacturing industry acquires renewed energy. (Table 1) Secondly, almost all of these sectors are composed by products of high added value and present medium or high technology. In general, they are machinery and equipment, electronic components and industrial raw materials such as in Steelworks industry and chemicals.

Table 1 - Largest deficits of Brazilian manufacturing sectors with China (em US$ milhões)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2004</th>
<th>2008</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing of office, accounting and computing machinery</td>
<td>(268.477)</td>
<td>(1.528.205)</td>
<td>(2.963.490)</td>
</tr>
<tr>
<td>Manufacturing of television and radio receivers, sound or video recording or reproducing apparatus, and associated goods</td>
<td>(576.065)</td>
<td>(1.216.613)</td>
<td>(2.750.089)</td>
</tr>
<tr>
<td>Manufacturing of general purpose machinery</td>
<td>(41.920)</td>
<td>(954.331)</td>
<td>(2.696.287)</td>
</tr>
<tr>
<td>Manufacturing of television and radio transmitters and apparatus for line telephony and line telegraphy</td>
<td>(102.355)</td>
<td>(1.970.831)</td>
<td>(1.992.390)</td>
</tr>
<tr>
<td>Manufacturing of basic chemicals</td>
<td>(235.741)</td>
<td>(1.594.266)</td>
<td>(1.821.854)</td>
</tr>
<tr>
<td>Manufacturing of special purpose machinery</td>
<td>(6.216)</td>
<td>(977.287)</td>
<td>(1.670.786)</td>
</tr>
<tr>
<td>Manufacturing of electronic valves and tubes and other electronic components</td>
<td>(295.860)</td>
<td>(1.040.944)</td>
<td>(1.456.183)</td>
</tr>
<tr>
<td>Manufacturing of wearing apparel</td>
<td>(62.936)</td>
<td>(372.451)</td>
<td>(1.272.859)</td>
</tr>
<tr>
<td>Manufacturing n.e.c.</td>
<td>(116.023)</td>
<td>(552.715)</td>
<td>(1.007.925)</td>
</tr>
<tr>
<td>Manufacturing of other fabricated metal</td>
<td>(52.265)</td>
<td>(466.849)</td>
<td>(993.158)</td>
</tr>
<tr>
<td>Manufacturing of other chemical products</td>
<td>(156.597)</td>
<td>(529.192)</td>
<td>(989.048)</td>
</tr>
<tr>
<td>Spinning, weaving and finishing of textiles</td>
<td>(143.203)</td>
<td>(461.152)</td>
<td>(862.047)</td>
</tr>
<tr>
<td>Manufacturing of electric motors, generators and transformers</td>
<td>(91.712)</td>
<td>(499.792)</td>
<td>(848.506)</td>
</tr>
<tr>
<td>Manufacturing of domestic appliances</td>
<td>(36.517)</td>
<td>(327.759)</td>
<td>(709.896)</td>
</tr>
<tr>
<td>Manufacturing of plastic products</td>
<td>(27.342)</td>
<td>(231.438)</td>
<td>(629.309)</td>
</tr>
<tr>
<td>Manufacturing of knitted and crocheted</td>
<td>(9.598)</td>
<td>(246.922)</td>
<td>(559.730)</td>
</tr>
<tr>
<td>Manufacturing of rubber products</td>
<td>(17.987)</td>
<td>(299.212)</td>
<td>(547.147)</td>
</tr>
<tr>
<td>Manufacturing of non-metallic mineral</td>
<td>(13.988)</td>
<td>(155.282)</td>
<td>(529.186)</td>
</tr>
<tr>
<td>Manufacturing of other textiles</td>
<td>(19.419)</td>
<td>(201.643)</td>
<td>(508.701)</td>
</tr>
<tr>
<td>Manufacturing of electricity distribution and control apparatus</td>
<td>(35.189)</td>
<td>(199.178)</td>
<td>(480.853)</td>
</tr>
</tbody>
</table>

Source: Comtrade. Own elaboration. Sectors proceed from the Industrial Classification of All Economic Activities, Rev.3 (ISIC Rev3) divisions from 15 to 37.

The data presented above allow us to point out that the Brazilian industry has been impacted by the growing Chinese presence in the form of imports in almost all sectors. However, this
presence is still limited in terms of participation in domestic industrial supply; besides being very different across sectors. Further, the value added of exports is regressing from processes products to in natura, aggravating the Brazilian situation, and generating pressure towards greater commodities specialization and lower density of Brazilian industry. This beginning process tends to affect all sectors, even with different impacts, but it does not seem to be capable of, by itself, leading to a deindustrialization, especially if we take into account the size of the Brazilian market, its level of manufacturing consistency and wide range of macro and microeconomic policies available from the government and economic agents (BARBOSA & Jenkins, 2012).

In short, China can be an opportunity for Brazil by sustaining demand and prices of primary goods, alleviating the external restriction in many Latin America countries and expanding the manufactured ones demand of these primary producing countries, which can be put to good use by Brazil, since these countries are our manufactured goods traditional buyers. At the same time, the new cycle of Chinese foreign investment can help expand the Brazilian production capacity, as long as consistent public policies are driven in this direction. On the other hand, the threats are characterized by regressive specialization, or as called in Brazil, “reprimarization”, by commodity rising, Chinese exports competition in regional markets in manufactured goods, before the rapid technological upgrade of Chinese exports, besides the external investments attraction and whole industrial sectors for the Chinese territory.

The trade pattern described above must be analyzed in a linked way to the profile of Chinese foreign investment in Brazil, which has been expanding expressively, and in line with the industrial policy adopted by the Brazilian government. As we will discuss below, unlike most countries in South America, where Chinese investments are concentrated in primary products and some segments of infrastructure, in Brazil, because of its potential and size of domestic market, and the possibility of gaining space with other global players, Chinese investors - usually large ones and presenting more and more sophisticated technologies - have been focusing on a variety of industries. Among them, some branches in the secondary sector; the various segments of infrastructure where there is a regulatory framework in the new wave of reforms, with a goal to make more room for the private sector - which encourages long-term bets, not just the focus on profitability in the short term; besides some commodities, especially oil.

3. The Profile of Chinese Investments in Brazil at the Recent Period

The body in charge of keeping track of information on foreign direct investment in Brazil, which is Banco Central do Brasil (BCB), stopped, in 2007, spreading the country matrix data x investment sector. An alternative for the analysis of such data would be using the disseminated ones from the Ministry of Commerce of China (MOFCOM). However, data from MOFCOM are undervalued by round tripping, back and forth of resources to Hong Kong or the usage of tax havens. This current survey, therefore, uses data released by Brazil-China Business Council, which is guided, in turn, by the investment ads released by the news, interviews with companies and companies financial reports analysis (CEBC, 2011); Recent studies from RED ALC-CHINA on Chinese investments of 2013, which goes from the UNCTAD survey and
Thomson-Reuters; besides other secondary sources. It is worth mentioning, however, that many announced investments may not have been confirmed and others refer to controlling interest transfers.

Up to 2010, the volume of investments announced by Chinese companies would not exceed US$ 3.03 billion. However, this year, the volume reached US$ 35.45 billion, establishing a significant change in the relationship between both countries (Oliveira, 2012; Frischtak e Soares, 2013). Nevertheless, the CEBC estimate is that the amount actually invested by Chinese companies in operations in Brazil, in 2010, was US$ 12.690 billion. If operations that meant buying assets were subtracted, the estimate would drop to just US$ 1.522 billion (CEBC, 2011). Additionally, according to data from the RED LAC-China, between 2000 and 2011, Brazil received about US$ 14.614 billion, becoming the prime target country for Chinese direct investments in Latin America, with 6.41% of flows (PETERS, 2013; DWYER, 2011).

Another study by the Heritage Foundation and the Rhodia Group, points out that Brazil, despite having seen its share decrease in the later period, was on the 4th place in the global ranking of Chinese direct investments between 2005 and 2010 (LLORES, 2013). Because of the difficulty to measure the amount invested by China in Brazil, we divided the data analysis into three periods - before 2010, the year of 2010 and after 2010 - since we can observe distinct patterns in each. Between 1999 and 2009, the main investment sectors were the electronics (24%) and the automotive (18%) ones. In 2010 the main investment sector was the energy (oil and gas) one with 22% of the total, followed by the mining one with 18% of the total and 13% with agribusiness one. In 2011, the automotive sector started dominating again with 37% of the total number of projects.

According to Holland and Barbi (2009), the largest contribution of resources made from China to Brazil happened in May 2009 when the Development Bank of China lent US$ 10 billion to Petrobras which was also constituted as the largest input performed to a Latin American country. The agreement stipulated the export of 150 thousand barrels of oil per day to Sinopec, China’s state oil company; from 2009, and 200 thousand barrels per day between 2010 and 2019. We may also highlight ZTE, a technology company which, supported with US$ 2 billion from the China Development Bank, has obtained financing regarding the Brazilian landline and mobile telephone carrier equipment purchase; and transactions established between the China Development Bank and Itaú BBA, the investment branch of Banco Itaú, Brazil’s largest private bank in the amount of US$ 100 million, and between the China Development Bank and BNDES, the state development bank of Brazil, worth US$ 800 million - both in 2009.

As for the determinant of entrance and its form, between 1999 and 2009, 71% was market seeking and the predominant entrance form was greenfield (71% of the number of projects). In 2010, 67% was driven by resources seeking, with 50% of the number of projects announced in greenfield form, but 67% of the announced volume of resources in mergers and acquisitions. In 2011, 80% was market seeking and the form of entrance was 58% of the number of projects such as greenfield. It is worth mentioning that the presence of Chinese state-owned enterprises investments was dominant throughout the entire period of analysis. Indeed, between 2000 and 2011, 87% of Chinese foreign direct investment in the world came from state enterprises, which came along with a higher value per transaction: US$ 1,027 million versus US$ 100 million at the private sector (PETERS, 2013). Almost all of these investments in those areas
were directed to commodities and energy, while the automotive sector was the favorite of private enterprises. (Table 2).

Oliveira (2012) points out that the three periods mentioned about the Chinese investments entrance in Brazil present distinct characteristics. Between 1999 and 2009, the Chinese investment, yet with low volume, would be concentrated in the electronics, automotive and telecommunications sectors, and the form of Greenfield entrance and market seeking motivation was predominant. The investor’s properties were both private and state-owned Chinese. The same profile was repeated in 2011, but with appreciable increase in the investments volume. However, in 2010, Chinese investments stood out for prioritizing mergers and acquisitions in sectors such as energy, mining and agribusiness ones, with resource seeking motivation chiefly by Chinese state. Other studies, such as the study by Credit Suisse, points to China as the largest investor in mergers and acquisitions in Brazil between 2009 and 2012, presenting 16.5 % of the total, even ahead of the United States, which had 15.6 % (FRAGA, 2013).

The Brazilian case seems to differ from the rest of Latin America, due to the size of its domestic market and export potential. Hence the penetration in sectors such as transmission and power generation (Stategrid) and electronics (Lenovo) ones, where the Chinese presence in Brazil seems to be more figure compared to other countries in the region. Chinese companies tend to occupy open spaces from the existing regulatory mark. And even when performing new investments, they usually do it, to some extent, supported in existing plans under the control of national or transnational companies, launching from this initial position, a more aggressive penetration strategy. Analyzing these periods jointly, we can observe that the direct Chinese investment has been divided into three business fronts (Table 2).

The first refers to the activities of oil companies such as China National Petroleum Corporation (CNPC) and China National Offshore Oil Corporation, which jointly acquired 20% of the Libra oil field exploration rights - in a partnership of the state-owned operator Petrobras, Anglo-Dutch Shell and the French one Total. With no presence in Brazil until then, unlike the members of the partnership, the two Chinese companies had to constitute Brazilian companies; besides transferring to the country the equivalent in dollars of R$ 1.5 billion related to the signature bonus owned by each (10 % each). According to the Brazilian tax law/legislation, the tax on Financial Transactions (IOF) levied on foreign exchange transactions is 0.38%. And if every Chinese one transfers to Brazil the US dollar equivalent of R$ 1.777 billion needed to pay bonuses and constitute a company with the minimum required capital, it will be raised yet R$ 6,753 million in taxes (Valor Econômico, 2013).

At the same time, refineries deployment in Brazil established partnerships between Petrobras and China Petrochemical Corporation (Sinopec). In other words, even the investment in commodities can lead to a value addition in the national territory. Sinopec began its operations in Brazil in 2010, along with the acquisition of 40% of the Brazilian unit from the Spanish company Repsol. According to Repsol, the value of the deal at US$ 7.1 billion, was essential to finance its exploration activity in the pre-salt. Repsol Sinopec announced an investment of US$ 947 million in Brazil in 2012, almost US$ 200 million more than in 2011. The company also intends to increase investments in research and development in Brazil, establishing an agreement with PUC-Rio University, UFRJ University and Unicamp University (Fortuna, 2012).
At the same time, refineries deployment in Brazil established partnerships between Petrobras and China Petrochemical Corporation (Sinopec). In other words, even the investment in commodities can lead to a value addition in the national territory. Sinopec began its operations in Brazil in 2010, along with the acquisition of 40% of the Brazilian unit from the Spanish company Repsol. According to Repsol, the value of the deal at US$ 7.1 billion, was essential to finance its exploration activity in the pre-salt. Repsol Sinopec announced an investment of US$ 947 million in Brazil in 2012, almost US$ 200 million more than in 2011. The company also
intends to increase investments in research and development in Brazil, establishing an agreement with PUC-Rio University, UFRJ University and Unicamp University (Fortuna, 2012).

The second concerns to manufacture, where companies from the automotive sector, "stimulated" by the additional of 30% charged to taxes on imported vehicles, decided to make investments in the country, meeting the local content requirements established by the Brazilian government - 65% to 80% of the produced cars - in order to escape from them.

After JAC Motors and Chery, with investments already in an advanced stage, the next on the list are Geely, Foton and Shineray. The first one began its operations in Brazil in 2011, from a joint venture with the Citroën ex-president group in Brazil Sérgio Habib, the HCS Holding group. Recently, with the launch of Innovate-Auto, the new Brazilian automotive regimen, JAC Motors announced the resumption of an investment of about R$ 1 billion on the Camaçari Complex, in the state of Bahia, to build a factory. Chery has already made a greenfield investment in Brazil in the amount of US$ 400 million at a car factory in Jacareí, in the state of São Paulo. The cars that Geely will sell in Brazil are going to be built in Uruguay and, under the Mercosur free trade agreement; they will come free from the 30% surcharge of IPI applied on vehicles imports. The brand is represented in Brazil by the businessman José Luiz Gandini group, which also imports the cars from the Korean Kia Motors (Valor Econômico, 2013). Until then both worked with their cars import - which changed after the launch of the new Brazilian automotive regimen. Competing with highly established players in the Brazilian market such as GM, Ford and Volkswagen, the three Chinese ones began to supply cars at very competitive prices and presenting quality standard.

In the infrastructure sector, in turn, Brazil stands as the second largest destination of Chinese investment in energy, with the State Grid Brazil Holding being the first major investment by the State Grid Corporation of China in non-Asian countries. In 2010, it acquired seven national power transmission companies: Itumbiara, Catxerê, Expansion, Serra da Mesa, Itatim, Porto Primavera and Araraquara, at the cost of US$ 989 million. Since it arrived in the country, the company has disbursed R$ 7 billion. Most part of the resources were spent on the acquisition of 12 transmission lines, seven from the Plena Transmissoras company and five from the Spanish company Actividades de Construcción y Servicios (ACS), amounting nearly 6 thousand km, and on the purchase of an entire building in Rio de Janeiro. The company intends to invest R$ 10 billion in Brazil by 2015 (POLITO, 2013). The remaining resources over the next two years will be chiefly intended for transmission projects that the company bought at auctions held from 2011 to 2013, in which stands out the transmission line from the hydroelectric plant of Belo Monte. In this case, the company performed in a partnership, along with Eletronorte and Furnas, controlled by the state Eletrobrás, and counting on a significant contribution from BNDES. Besides Stategrid, there are concrete possibilities for Chinese participation in the railway industry and other activities related to the Logistics Investment Plan (PIL) from the federal government.

Then, in the electronics sector, Lenovo began its operations in Brazil in 2005, right after the acquisition of IBM computers division in Brazil. Initially the company's operation was focused on the corporate segment (because of the IBM inherited portfolio), but gradually began to also provide to the public sector and final consumer market, launching the "Idea" line for natural people/individuals in 2009. Their largest customers were Petrobras and the government. Not by chance, Lenovo recently signed a contract to sell 600 Workstations, ThinkStation S30 model,
to Petrobras, suitable for supporting heavy procedures. By 2012, all Lenovo production and repairs were made under order by the American Flextronics, at its plan in Sorocaba. In July 2012, however, Lenovo announced an investment of US$ 30 million to set up an own factory in the country, right in Itu, in the state of São Paulo, in order to reduce costs and accelerate the delivery of products to Brazilians customers. In the beginning of September 2012, Lenovo announced the purchase of the electronics company Digibrás Participações, owner of CCE brand, at R$ 300 million (equivalent to US$ 147 million at the time of the transaction). The amount was the highest ever paid for a Brazilian electronics company, according to the consultancy company KPMG. Today the company is already a leader in the country in the personal computer segment and has been developing lot at the tablets producing, from its factory in Manaus, reaching the second position in the domestic market, behind the Samsung company.

These areas of activity reveal both the Chinese desire for occupying new markets through foreign direct investment, usually by acquiring assets of national and transnational corporations, or through partnerships with Brazilian state-owned companies and other transnational groups. But also due to diversification of the Brazilian domestic market, considering that the oil industries and infrastructure present expressive possibilities of expansion and production intensification, depending on the industrial policy guidelines, the performance of state companies, the concessions in the infrastructure area and public investments in partnership with the private sector.

**Concluding Remarks**

From the 2000s on, the Brazilian economy began to receive the impact of China’s rise on the international market. These impacts are not easily characterized. The statements found on the Brazilian press, and even from some experts that China is leading to a, so called in Brazil, “reprimarization” or “deindustrialization” of the Brazilian economy seem hasty. It is clear that Brazil has been presenting trade surpluses with China due to its diversified supply of agricultural and mineral commodities. We can also notice a substantial expansion of Brazil’s trade deficits with the big Asian in the manufacturing industry, especially in machinery, equipment and electronics sectors, surpassing also industrial deficits with other suppliers such as the USA and the European Union. However, the Brazilian industry remains - despite the significant deceleration witnessed between 2011-2013 - counting on a reasonable level of diversification, which is due to the size of its domestic market and its export potential especially to South America.

As we analyze the profile of Chinese investment, unlike most countries in the region, it tends to assume a market-seeking profile, betting on the potential of the national market and following closely the public policy agenda. An evident example is the recent entrance of Chinese companies in the automotive sector - Chery and JAC - in order to structure part of their supply chains in the national territory, which contributed to the imposition of a tax rate of 30% on the IPI for those who would not count on a minimum local content. All indicates that their focus is the domestic market and not the action as an export platform from Brazil, at least at the initial moment. In the two specific companies case, Stategrid and Lenovo - working in the energy /
infrastructure and electronics sectors - we can notice the possibility of attracting Chinese companies to the Brazilian market in medium and high technology sectors. This potential is not restricted to these companies and sectors.

Two factors are strategic to its aggressive presence: the existence of a minimally foreseeable regulatory mark in the electricity sector, as in State Grid case; and an expanding market for personal computers, tablets and smartphones, which its care requires a closer performance to consumers, requiring a combination of domestic production and imports of final products and components, as in Lenovo case.

In the first case, the operations range of the public sector appears to be broader and may lead even to an internalization of part of State Grid suppliers chain, which is currently under way, and can be strengthened if there is an explicit policy local content. At the same time, State Grid has been operating in partnership with Brazilian state-owned companies of the sector, as in the case of Belo Monte transmission line. State Grid operations with Eletrobrás in other foreign markets also happen to be contemplated. At last, the company intends to operate in an integrated way, which means, not restricted to the transmission sector, but also advancing for generation and distribution, besides developing renewable energy sources counting on programs and contributions from BNDES.

In Lenovo case, its presence in the Brazilian market has shown relevance, but the logic of global functioning of the computer chain turns to be an obstacle to its internalization in Brazil. However, its leadership in the national computer market, the outlook of advancing in the smartphone and tablet segment, prioritizing the launch of its PC + program in Brazil, indicates the bet on the domestic market. Its policy of expansion seems little influenced by Brazilian industrial policy, although considering the importance of Petrobrás and the Ministry of Education, as important buyers of their products. As in the case of the automakers, there is no contemplating, at least at the current moment, to use Brazil as an export platform to the region.

Anyhow, we can notice that these two Chinese companies, just like in the automotive sector companies’ case, incorporate Brazil as a priority in its global strategy, which makes room for a broad list of public policies in the country to allow development of domestic productive structure, involving players with ground breaking internationalization strategies. The increasing extroversion of Chinese companies, associated with a consistent set of internal policies - macroeconomic ones, sectorial ones and stimulus to the public-private partnership - can not offset the competitive pressure from the big Asian, contribute to their greater integration to the effort of expanding the investments and recovery of the country’s economic growth. There is also the negotiating possibility of technology transfer agreements.

All indications are that besides most Brazilian governmental authorities speech, which always harps about on the same thing which is the need for Brazilian exports diversification to China, the main factors that can improve the quality of the partnership between the two countries are related to the size of Brazilian domestic market, which works as an attractive for Chinese companies in a vigorous process of internationalization; and action of structuring public sector policies that lead to partnerships between both countries companies in the national territory, creating interests which could even reveal an exporting capacity to other markets, especially the regional.
In this sense, Brazil's foreign and trade policy with China must overcome the speech of the Chinese threat, yet recognizing the importance of the anti-dumping, countervailing and safeguard measures usage. But they can not serve as a long term strategy. It must go beyond the trade defense policies or the Chinese denunciation of "disloyal competition" for the establishment of productive partnerships between Brazilian and Chinese companies in both markets. The examples noted above of recent flows of foreign direct investment do not support the thesis that they are "parasites" or "extractive". Contrarily, if they are followed by a coherent industrial and technological policy they can result in important chains effects for the Brazilian market.

As for the unbalanced commercial standard in favor of China, it seems more to be due to macroeconomic trajectories and transformation of the productive structure happened in recent decades in both countries. China’s presence can actually lead to shrinkage of significant production chains in Brazil by the capital goods intermediate goods imports, besides the displacement effect on Brazilian exports to the regional market. The change of this situation requires strategic national policies directed to the long term, to ensure the increase of productivity in companies and sectors of Brazilian industry. This means that Brazilian government must put in place infrastructure projects and incentives for increased productivity of the internal market in order to increase the likelihood of sustaining economic and social progress. Manufacture sectors may compete in large domestic demand sectors sustained by the government as pharmaceutical industry or construction for instance.

Bilateral relations with the Asian partner are important, but they have their limitations. However, the joint operation within the BRICS, especially in global forums such as the G-20, can ensure greater management room for domestic economic policies of Brazil. We cannot naively believe in an uncontested support from China to Brazilian proposals, but neither the widespread strategy by segments of academia and national press seems right in which Brazil should take a position in favor of the USA and EU.

In short, the resolution for the most of dilemmas faced by the Brazilian economy in a context of China’s rise in the context of reorganization of the international division of labor goes through geopolitics. China can become a potential ally of Brazil at the multilateral forums; as long as the country knows what they want and may want from the new Asian power, but without assuming a posture of detachment from the North countries.

4. List of References


Fraga, E. China lidera as aquisições de empresas brasileiras. F. de São Paulo: São Paulo, 1/03/2013.


LLORES, R. J. Brasil despenca no ranking de investimentos chineses no mundo. São Paulo: F. de São Paulo, 1/02/2014.


